

“Taxes are what we pay for civilized society.”

Supreme Court Justice Oliver Wendell Holmes

Revenue Enhancements for Consideration by the City of San Diego Citizens Revenue Review and Economic Competitiveness Commission

California Taxation in Context

In 2008-09, California ranked 21st among the 50 states for state taxes as a percentage of personal income. The state also ranked 19th for total “own source” revenues – the broadest measure of state and local revenues – raised by state and local governments in 2006-07, the most recent year for which data are available. California ranks relatively high for personal and corporate income tax collections. The state ranks relatively low for state sales, property, and vehicle fuel, taxes.¹

San Diego Taxation in Context

The data show that the City of San Diego continues to lag behind other large cities in California in most general fund revenue sources, including property tax, sales tax, transient occupancy tax, trash fee, and business license tax. The City took in more revenue in 2006-07 than in 2002-03, but much less than other cities, though the regional economy was doing well.²

Resolving San Diego’s Budget Deficit

Since 2005, City leaders have worked hard to resolve its chronic budget deficits through reduced personnel costs. The Mayor and City Council have eliminated hundreds of positions, and slimmed down pension plans for new employees. Even after these cuts, the City faces a projected deficit of at least \$70 million for Fiscal Year 2012. Projections for the following years are not much better.

Deficits facing San Diego are not situational... the City faces a *structural* budget deficit – one that remains across economic cycles. San Diegans can either increase revenues or cut the cost and/or volume of non-emergency services by about 20% in addition to prior budget cuts.

The City Council has adopted a set of foundational principles for a structural deficit elimination plan to, “Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.” This promise is already partially fulfilled: employee unions have accepted pay freezes and reduced benefits; the City has cut hundreds of jobs and reduced service levels; and the City is seeking ways to cut costs by turning over some services to private contractors. However, despite growing evidence of the need for more revenues, the City’s last significant tax increase for a major General Fund source resulted in the increase in Transient Occupancy Tax rate from 8% to 10.5% in 1994.

¹ California Budget Project, “*Who Pays Taxes in California?*” April 2010

² Center on Policy Initiatives, “*The Bottom Line: A Comparative Analysis of California’s Largest Cities*,” April 2010

Sales & Use Tax Increase

Proposal:

- $\frac{1}{2}$ % increase generates **\$103.0 million**; $\frac{1}{4}$ % increase generates **\$51.5 million**.

Required to Enact:

The City Council approves the placement of the measure on the ballot by a $\frac{2}{3}$ rd majority (6 votes), which then requires approval by a majority of voters, if the tax revenue is to be used for a general purpose, or a $\frac{2}{3}$ rd vote, if the tax will be used for a specific purpose. For general revenues, the election must take place with a regular municipal election in which members of the City Council are listed, unless the City Council unanimously declares an “emergency”.

Background

In FY 09, the City of San Diego received \$206 million in sales tax revenue. The sales tax rate collected in San Diego is currently 8.75%, allocated as follows:

Rate	Jurisdiction
6.00%	State General Fund
0.25%	State (Fiscal Recovery Fund)
0.50%	State (Local Revenue Fund)
0.50%	State (Local Public Safety Fund)
0.25%	County Transportation
0.75%	City
0.50%	TransNet (County & City)
8.75%	Total City Sales Tax

Arguments Supporting:

- Relatively stable except during severe recession.
- Existing collection system; minor new administrative expense.
- Applies to all residents and businesses, sharing the burden.
- Paid also by tourists, sharing costs of city services with the visitors who use them.
- San Diego has the lowest tax rate compared to other cities in the County; El Cajon, La Mesa, National City, and Vista have tax rates $\frac{1}{2}$ % to 1% higher.

- Probably would not result in funded campaign opposition.

Arguments Opposing:

- Sales taxes are regressive, putting a greater burden as a percentage of household income on those at the lowest end of the income spectrum.
- All retailers in the city would have to reset their registers with the new rate.
- Could migrate some major retail purchases (electronics, furniture and appliances, e.g.) to other cities, resulting in a marginal loss of sales for businesses in the city.

Utility Users Tax

Proposal:

Enact Utility User Tax with a variety of rates collected by utilities and transmitted to the City for electricity, gas, telephone, water, sewer, garbage, cable television, and data transmission services at combine rate averaging \$74 per capita per year, roughly \$18.50 per family per month.

- Generates **\$92.5 million**.

Required to Enact:

The City Council approves the placement of the measure on the ballot by a majority (5 votes), which then requires approval by a majority of voters, if the tax revenue is to be used for a general purpose, or a 2/3rds vote, if the tax will be used for a specific purpose. For general revenues, the election must take place with a regular municipal election in which members of the City Council are listed, unless the City Council unanimously declares an “emergency.”

Background

UUTs are a top revenue generator for most major California cities. Approximately 150 California cities and four counties impose UUTs. The tax rates range from 1% to 11%, with variations in the utilities that the tax is applied to. The City of San Diego is unique among its peer major cities in not charging the tax.

Arguments Supporting:

- Very stable.
- Applies to all residents and businesses, sharing the burden.

Arguments Opposing:

- Utilities already pay a franchise fee to use the City right of way; this is a duplicative cost.
- Requires new administrative expense for the city and utilities.
- Could produce market distortion in regulated (Cox, Times Warner) vs. unregulated (DirectTV, DISH), though City law could be structured to minimize.
- Utility taxes may be regressive, putting a greater percentage burden on those at the lowest end of the income spectrum.
- Increases cost burden on manufacturing, R&D, tourism sectors creating disincentive to do business in San Diego.
- Probably would result in major funded campaign opposition from cable companies and SDG&E.

Commercial Parking Tax

Proposal:

Levy a 10% tax on parking fees collected at commercial parking lots and structures.

- Generates **\$31.0 million**

Required to Enact:

The City Council approves the placement of the measure on the ballot by a majority (5 votes), which then requires approval by a majority of voters, if the tax revenue is to be used for a general purpose, or a 2/3rds vote, if the tax will be used for a specific purpose. For general revenues, the election must take place with a regular municipal election in which members of the City Council are listed, unless the City Council unanimously declares an “emergency.”

Background

Parking taxes are commonly levied as a percentage of the parking fee charged to the occupant. Parking taxes are collected by the parking facility operator and remitted to the city on a periodic basis. The City of San Diego does not currently levy a parking tax. However, other large jurisdictions in California do levy parking taxes, including the cities of Los Angeles and Oakland, and the City and County of San Francisco. The table below shows the parking tax rates levied by these cities and the revenue that was generated in FY 2009.

Parking Tax, Select CA Cities

City	Tax Rate	FY09 Revenue
Los Angeles	10.0%	\$85.4 million
San Francisco	25.0%	\$64.5 million
Oakland	18.5%	\$14.2 million

Arguments Supporting:

- Relatively stable except during severe recession.
- Paid also by tourists (not just residents), sharing costs of city services with the visitors who use them.

Arguments Opposing:

- New collection system; new administrative expense.
- Applies unequally among both residents and businesses, primarily based on job location.
- Might result in funded campaign opposition from existing commercial parking operators and property owners.

Business Tax Increase

Proposal:

Change business tax basis from existing system based on number of employees to more common system based on gross business receipts; create a new rate structure, increasing from average of \$79 per business. Changes to San Diego's rental unit business tax rate structure could be considered along potential changes to the business tax.

- Generates **\$13.6 Million** in additional revenue based on tripling of current rate.

Required to Enact:

The City Council approves the placement of the measure on the ballot by a majority (5 votes), which then requires approval by a majority of voters, if the tax revenue is to be used for a general purpose, or a 2/3^{rds} vote, if the tax will be used for a specific purpose. For general revenues, the election must take place with a regular municipal election in which members of the City Council are listed, unless the City Council unanimously declares an "emergency."

Background:

Business taxes (BT) are usually levied as a percentage of gross receipts or a fixed charge per employee. Often, rates are tiered depending on the size of the business, number of employees, or business type. San Diego levies a flat annual BT of \$34 for about 92,000 businesses with 12 or fewer employees; and about 6,000 businesses with 13 or more employees pay a flat annual BT of \$125, plus \$5 for every employee. Additionally, new businesses within the City are required to pay a \$17 zoning use clearance fee.

Comparative data compiled by the Office of the City Treasurer shows San Diego's average BT revenue (including San Diego's rental unit business tax) is considerably lower than other major cities.

City	Total Business Licenses	Total Revenue (\$ in Millions)	Average Revenue per Account
San Francisco	75,000	\$394.0	\$5,253
Los Angeles	285,000	\$365.0	\$1,281
Oakland	65,000	\$50.0	\$769
San Jose	60,000	\$14.0	\$233
San Diego	178,000	\$14.0	\$79

Arguments Supporting:

- San Diego's businesses pay the lowest business taxes of the ten largest cities in the state even though businesses in the City rank third-highest in gross sales.
- Even with the proposed increase, San Diego BT will remain the lowest average rate among major cities in California.

Arguments Opposing:

- Uncertain stability based on economic cycles and City's ability to retain and attract business growth.
- Could discourage business location for major employers.
- Could generate major funded opposition from major employers.

Fee for Trash Collection and Recycling

Proposal:

Replace/amend the 1919 People's Ordinance requiring the City to charge a fee for collection of residential waste not to exceed the actual cost of service; fees kept in an segregated fund, audited annually and overseen by a citizens oversight committee; requires that any fees proposed for waste collection, disposal or recycling shall be subject to veto through a protest vote of residents. Upon approval of the new Ordinance, assess fees for trash services at a rate averaging about \$15 (maximum) per month per household (estimate based on FY 2010 data; actual rate to be determined by cost of service study).

- Initially, generates **\$0 new revenue**; upon enactment of fees, \$49 million per year, relieving **\$34 million now charged to the General Fund** and \$15 million to the Recycling Fund.

Required to Enact:

Majority voter approval is needed to amend the People's Ordinance. In addition, assuming voters approval, a Proposition 218 notification would be required (as now required for increases in water and sewer rates); if less than a majority of impacted property owners files a written protest, the fee is enacted upon City Council majority approval. A monthly fee of approximately \$9.29 for trash, \$2.82 for recycling; and \$3.05 for green waste; total \$15.16 per month.

Background

The People's Ordinance, adopted by San Diego voters in 1919, requires the City of San Diego to collect, transport and dispose residential refuse, including recyclables and green waste, and prohibits the City from charging a fee for this service.

Arguments Supporting:

- San Diego is the only major California city that does not recover its refuse collection expenses.
- Only one other city of 478 California cities provides trash collection free of charge.
- Because we do not collect fees for trash collection, the city now has \$34 million less available to pay for police, fire, roads and other essential services. It's a major cause of the structural budget deficit.

Arguments Opposing:

- Residents could be asked to vote on an open-ended permission to create fees when no one knows what the actual fees will be.
- Will result in new administrative costs of an unknown amount.
- We already pay for trash through property taxes; why should we pay twice?

Beach Parking Fees

Proposal:

In beach areas, parking meters and fees at city-owned lots from 8:00 a.m. until 7:00 p.m. Fees of \$6 for up to four hours (with a \$10 maximum per day) would be charged daily from Memorial Day through Labor Day as well as weekends and holidays in March, April, May and September.

- Generates **unknown revenue**.

Required to Enact:

The fee could be enacted upon City Council majority approval. May also require approval by the California Coastal Commission.

Background

In 2005, the City identified 63 city parking lots with about 8,880 parking spaces in the beach and bay area from Mission Bay Park to La Jolla Shores -- 44 lots containing approximately 8,000 spaces are highly utilized during the peak season, weekends and holidays in March, April, May, and September. Since that study, voters approved Proposition C, which may preclude use of new revenues for other than Mission Bay Park. At this writing, an unknown number of spaces in the 2005 study are within Mission Bay, and thus might not benefit the General Fund. An unknown number of on-street parking meters might also be installed in beach areas. Revenues that might be derived from meters have likewise not been calculated. There are differences of legal opinion on how funds from beach parking could be used. Consideration to be given as to specific City costs to be recovered, whether for repair and maintenance of City streets, and/or maintenance and operation of City parks and beaches.

Arguments Supporting:

- This could ensure that non-residents help pay for San Diego road repairs, lifeguard protection, beach maintenance, law enforcement, and fire safety..
- Overnight parking would be exempt, so the proposal would have little adverse impact on residents.
- Paid parking programs encourage more efficient use of limited parking spaces, which increases beach area access through parking turnover.

Arguments Opposing:

- Could reduce local business activity, reducing sales tax revenues and hurting local businesses.
- It would be a costly hassle for area residents. Most other neighborhoods don't have to pay to park in their neighborhood; residents of beach areas should not be penalized.
- Sustained vocal opposition from local residents and businesses is likely.

Emergency Response Fees

Proposal:

Accident Negligence Fee: Enact a fee to recover the costs of emergency response from persons determined by police to be *at fault* in traffic accidents. The fees might range from \$400 (securing the safety of the accident scene and investigation) to \$2,000 (includes helicopter medical transport.)

False Alarm Fee: Adopt a fire false alarm fee on an escalating schedule similar to that for false police alarms, which as an example starts at \$100 and increases to \$2,200 for the fourth offense.

- Generates an **unknown amount**. (As a point of reference only, the City's burglar alarm permit fee is expected to generate \$3.1 million annually, which would recover most administrative and false alarm response costs.) No estimates have been made about the amounts that might be recovered from either Fire False Alarm or Accident Negligence Fees.

Required to Enact:

A cost of service study would be required to determine the costs associated with particular emergency response services, thus the rate imposed for cost recovery. The fee schedule is enacted upon City Council majority approval.

Background

The City has no fee structure to recover the costs associated with false fire alarms or from negligence resulting in a traffic emergency. The Police Department charges a false alarm penalty fee to recover the annual costs of false alarms. The Police burglar alarm permit fee schedule discourages repeat offenses with penalties that increase with the number of offenses, and permits one false alarm within 30 days, and up to four per year.

Arguments Supporting:

- Those who cause accidents through negligence should reimburse fellow taxpayers for the cost of their mistakes.
- Those who cause repeated false fire alarm responses should reimburse fellow taxpayers for the cost of their mistakes.

Arguments Opposing:

- Emergency response is a core service that should be considered part of the basic tax structure of the city and additional fees should not be imposed on residents or businesses, even if they negligence causes additional cost burdens on the City.

Corporate Sponsorships

Proposal:

Adopt sponsorship and advertising opportunities to support lifeguard services within the City, including lifeguard uniforms and advertising on beach trashcans, lifeguard towers, and information boards among other possibilities.

- Generates **unknown revenue**.

Required to Enact:

- Sponsorship proposals relating to advertising on beach trashcans, lifeguard towers, and information boards violate current signage regulations within the City of San Diego Municipal Code. Implementing these options within the City would require Council approval of amendments to the Municipal Code by a simple majority of the Council.
- Marketing partnership opportunities valued at \$250,000+ must participate in open competition and be approved by City Council; from \$50,000 to \$250,000 require mayoral approval; less than \$50,000 require approval by a Department Head or Director.

Background

In 1999, the City established a Municipal Marketing Partnership Program that is credited with over \$20 million in revenue, in-kind services, and products since its inception. The City has existing partnerships with Verizon Wireless, the San Diego Metropolitan Credit Union, Cardiac Science, Pepsi Bottling Group, Inc., and the Qualcomm Stadium.

Sponsorships to support lifeguard services have been attained by the City in the past. In 2002, the city secured a two-year agreement with General Motors for 29 vehicles for use by City lifeguards. As a part of the agreement, General Motors was able to place company graphics on the vehicles and advertise as the City's lifeguard services partner.

Arguments Supporting:

- Sponsorships could help finance lifeguard services and other beach related expenses; such revenues could increase compensation for lifeguards, increase lifeguard services, or reduce the structural budget deficit.

Arguments Opposing:

- Attractive beaches are an important amenity that is enjoyed by residents and helps attract tourism revenue for the city; cluttering the beaches with advertising would generate relatively little income at a potentially large loss of revenue.